

EXECUTIVE SUMMARY

The Gem State's economy once again outperformed the Division of Financial Management's (DFM) prognostications. A look at nonfarm employment and income show Idaho's economy has been growing fast indeed. Nonfarm employment advanced at a remarkable 6.8% annual rate during this year's first quarter—its best showing since 1994's second quarter. This year's strong start was followed by a 2.4% nonfarm employment gain in the second quarter of 2005. These gains are being fueled by the construction sector. Idaho construction employment soared to 45,500 in the second quarter of 2005. In July 2005 it was predicted annualized Idaho housing starts would peak at just under 23,000 units in this year's first quarter then decline to 21,200 units in the following quarter. More recent data suggest Idaho housing starts' first quarter peak was higher than predicted in July 2005 and its second quarter decline was not as steep as had been forecasted. Specifically, there were 23,300 annual housing units started in the first quarter and 22,600 units in the second quarter. Idaho nominal personal income improved in the first quarter of 2005, but this change is harder to detect because of a recent data revision. In order to gauge whether Idaho personal income was stronger than had been previously forecast, one needs to focus on the growth rates and not the levels of personal income. According to BEA's revised series, Idaho nominal personal income rose at an 8.6% annual rate in the first quarter of 2005 and by 6.7% in the second quarter. Under BEA's previous methodology, Idaho nominal personal income grew at a 4.3% annual pace in the first quarter of 2005, and DFM predicted it rose 2.8% in the following quarter. On an inflation-adjusted basis, the revised BEA data show Idaho personal income rose 6.2% and 3.4% in the first and second quarters of 2005, respectively. Idaho's stronger-than-expected nonfarm and personal income performances in the first half of this year has once again raised the forecast's bar. Idaho nonfarm employment is projected to increase 3.6% in 2005, 1.8% in 2006, 2.0% in 2007, and 2.1% in 2008. Under these conditions, Idaho nonfarm employment will rise to about 646,700 jobs in 2008, which is about 9,000 jobs above the previous forecast. Idaho nominal personal income should grow an average of 6.5% over the forecast period, a noticeable improvement over July 2005's 5.9% average annual growth rate. Idaho real personal income is forecast to increase an average of 4.2% per year.

Like it did most of the news this fall, Hurricane Katrina dominates this *Forecast*. The national economic forecast herein was released in early September 2005, during the brief lull between Hurricanes Katrina and Rita. As a result, the forecast includes the estimated economic impacts of Hurricane Katrina, but does not include the impacts of Hurricane Rita. National employment has fared better after the storm than had been anticipated. Global Insight's economists assumed a net job loss of 120,000 in September. The U.S. Department of Labor estimates the net job loss was just 35,000. Hurricane Katrina has raised the short-term inflation rate outlook, mainly through energy prices. Eventually, energy prices should retreat, but the decline will be gradual and a return to 2004 levels is not expected. The nation's central bank policymakers believe inflation is a greater risk to the economy than Hurricane Katrina's aftermath. As a result, the Federal Reserve continued its policy of raising its federal funds rate in 25-basis point increments to 3.75% on September 20, 2005. Katrina will have a bigger impact on fiscal policy than on monetary policy. Disaster relief will increase federal outlays, which is expected to boost the federal deficit to \$343 billion in fiscal year 2006. Hurricane Katrina has slowed the economy, but it has not sent it reeling. The storm's impact could have been worse, but the economy was growing at a strong clip, and this momentum should keep it from slipping into a recession. Down the road, the economy will actually benefit from efforts to rebuild the damage from one of the nation's worst natural disasters.

**IDAHO ECONOMIC FORECAST
EXECUTIVE SUMMARY
OCTOBER 2005**

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
GDP (BILLIONS)											
Current \$	8,747	9,268	9,817	10,128	10,470	10,971	11,734	12,473	13,185	13,887	14,664
% Ch	5.3%	6.0%	5.9%	3.2%	3.4%	4.8%	7.0%	6.3%	5.7%	5.3%	5.6%
2000 Chain-Weighted	9,067	9,470	9,817	9,891	10,049	10,321	10,756	11,135	11,513	11,885	12,293
% Ch	4.2%	4.4%	3.7%	0.8%	1.6%	2.7%	4.2%	3.5%	3.4%	3.2%	3.4%
PERSONAL INCOME - CURR \$											
Idaho (Millions)	27,287	29,068	31,290	33,054	33,823	34,660	37,394	40,172	42,801	45,349	48,056
% Ch	7.6%	6.5%	7.6%	5.6%	2.3%	2.5%	7.9%	7.4%	6.5%	6.0%	6.0%
Idaho Nonfarm (Millions)	26,350	28,054	30,448	32,039	32,906	33,915	36,286	39,041	41,735	44,230	46,930
% Ch	7.1%	6.5%	8.5%	5.2%	2.7%	3.1%	7.0%	7.6%	6.9%	6.0%	6.1%
U.S. (Billions)	7,423	7,802	8,430	8,724	8,882	9,169	9,713	10,295	10,965	11,586	12,266
% Ch	7.3%	5.1%	8.0%	3.5%	1.8%	3.2%	5.9%	6.0%	6.5%	5.7%	5.9%
PERSONAL INCOME - 2000 \$											
Idaho (Millions)	28,429	29,788	31,289	32,376	32,666	32,846	34,542	36,068	37,589	39,144	40,660
% Ch	6.6%	4.8%	5.0%	3.5%	0.9%	0.6%	5.2%	4.4%	4.2%	4.1%	3.9%
Idaho Nonfarm (Millions)	27,452	28,748	30,447	31,382	31,780	32,140	33,517	35,052	36,653	38,178	39,708
% Ch	6.1%	4.7%	5.9%	3.1%	1.3%	1.1%	4.3%	4.6%	4.6%	4.2%	4.0%
U.S. (Billions)	7,734	7,996	8,429	8,545	8,578	8,689	8,973	9,243	9,630	10,001	10,378
% Ch	6.4%	3.4%	5.4%	1.4%	0.4%	1.3%	3.3%	3.0%	4.2%	3.9%	3.8%
HOUSING STARTS											
Idaho	10,105	10,334	11,469	12,182	13,180	16,303	18,492	21,660	19,101	18,594	18,087
% Ch	14.0%	2.3%	11.0%	6.2%	8.2%	23.7%	13.4%	17.1%	-11.8%	-2.7%	-2.7%
U.S. (Millions)	1.621	1.647	1.573	1.601	1.710	1.854	1.950	2.053	1.912	1.857	1.824
% Ch	9.9%	1.6%	-4.5%	1.8%	6.8%	8.4%	5.2%	5.3%	-6.9%	-2.9%	-1.8%
TOTAL NONFARM EMPLOYMENT											
Idaho	520,477	538,102	558,581	568,027	568,019	572,513	587,997	609,424	620,621	633,087	646,691
% Ch	2.6%	3.4%	3.8%	1.7%	0.0%	0.8%	2.7%	3.6%	1.8%	2.0%	2.1%
U.S. (Thousands)	125,924	128,992	131,792	131,833	130,345	129,999	131,475	133,627	135,675	137,508	139,261
% Ch	2.6%	2.4%	2.2%	0.0%	-1.1%	-0.3%	1.1%	1.6%	1.5%	1.4%	1.3%
SELECTED INTEREST RATES											
Federal Funds	5.4%	5.0%	6.2%	3.9%	1.7%	1.1%	1.3%	3.1%	4.3%	4.6%	4.8%
Bank Prime	8.4%	8.0%	9.2%	6.9%	4.7%	4.1%	4.3%	6.1%	7.3%	7.6%	7.8%
Existing Home Mortgage	7.1%	7.3%	8.0%	7.0%	6.5%	5.7%	5.7%	5.8%	6.4%	6.7%	7.0%
INFLATION											
GDP Price Deflator	1.1%	1.4%	2.2%	2.4%	1.7%	2.0%	2.6%	2.7%	2.2%	2.0%	2.1%
Personal Cons Deflator	0.9%	1.7%	2.5%	2.1%	1.4%	1.9%	2.6%	2.9%	2.2%	1.7%	2.0%
Consumer Price Index	1.5%	2.2%	3.4%	2.8%	1.6%	2.3%	2.7%	3.5%	2.3%	1.5%	1.9%

**National Variables Forecast by GLOBAL INSIGHT
Forecast Begins the THIRD Quarter of 2005**

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	2005				2006				2007			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
GDP (BILLIONS)												
Current \$	12,199	12,373	12,573	12,746	12,940	13,105	13,267	13,428	13,606	13,790	13,974	14,178
% Ch	7.0%	5.8%	6.6%	5.6%	6.2%	5.2%	5.0%	4.9%	5.4%	5.5%	5.5%	6.0%
2000 Chain-Weighted	10,999	11,089	11,188	11,265	11,370	11,476	11,562	11,643	11,729	11,830	11,933	12,049
% Ch	3.8%	3.3%	3.6%	2.8%	3.8%	3.8%	3.0%	2.8%	3.0%	3.5%	3.5%	3.9%
PERSONAL INCOME - CURR \$												
Idaho (Millions)	39,271	39,914	40,340	41,163	41,758	42,452	43,175	43,819	44,455	45,041	45,643	46,256
% Ch	8.6%	6.7%	4.3%	8.4%	5.9%	6.8%	7.0%	6.1%	5.9%	5.4%	5.5%	5.5%
Idaho Nonfarm (Millions)	37,988	38,770	39,288	40,116	40,751	41,376	42,087	42,725	43,287	43,905	44,540	45,187
% Ch	4.6%	8.5%	5.5%	8.7%	6.5%	6.3%	7.1%	6.2%	5.4%	5.8%	5.9%	5.9%
U.S. (Billions)	10,073	10,229	10,336	10,541	10,715	10,887	11,056	11,202	11,348	11,501	11,662	11,833
% Ch	2.0%	6.3%	4.3%	8.2%	6.8%	6.6%	6.3%	5.4%	5.3%	5.5%	5.7%	6.0%
PERSONAL INCOME - 2000 \$												
Idaho (Millions)	35,722	36,022	36,043	36,486	36,850	37,389	37,864	38,255	38,634	38,969	39,315	39,658
% Ch	6.2%	3.4%	0.2%	5.0%	4.1%	6.0%	5.2%	4.2%	4.0%	3.5%	3.6%	3.5%
Idaho Nonfarm (Millions)	34,555	34,990	35,104	35,558	35,961	36,441	36,909	37,301	37,619	37,987	38,365	38,741
% Ch	2.3%	5.1%	1.3%	5.3%	4.6%	5.4%	5.2%	4.3%	3.5%	4.0%	4.0%	4.0%
U.S. (Billions)	9,163	9,231	9,235	9,343	9,455	9,589	9,696	9,780	9,862	9,951	10,045	10,145
% Ch	-0.3%	3.0%	0.1%	4.8%	4.9%	5.8%	4.5%	3.5%	3.4%	3.6%	3.9%	4.0%
HOUSING STARTS												
Idaho	23,284	22,551	20,818	19,986	19,637	19,186	18,850	18,730	18,708	18,680	18,560	18,427
% Ch	68.1%	-12.0%	-27.4%	-15.1%	-6.8%	-8.9%	-6.8%	-2.5%	-0.5%	-0.6%	-2.5%	-2.8%
U.S. (Millions)	2.083	2.038	2.033	2.059	2.003	1.921	1.866	1.858	1.861	1.859	1.854	1.855
% Ch	24.2%	-8.4%	-0.9%	5.2%	-10.3%	-15.4%	-11.0%	-1.7%	0.5%	-0.3%	-1.0%	0.2%
TOTAL NONFARM EMPLOYMENT												
Idaho	604,731	608,257	611,115	613,591	616,339	619,256	622,103	624,786	628,028	631,327	634,742	638,251
% Ch	6.8%	2.4%	1.9%	1.6%	1.8%	1.9%	1.9%	1.7%	2.1%	2.1%	2.2%	2.2%
U.S. (Thousands)	132,814	133,429	133,903	134,362	134,936	135,483	135,913	136,368	136,803	137,278	137,728	138,222
% Ch	1.6%	1.9%	1.4%	1.4%	1.7%	1.6%	1.3%	1.3%	1.3%	1.4%	1.3%	1.4%
SELECTED INTEREST RATES												
Federal Funds	2.5%	2.9%	3.4%	3.5%	3.9%	4.4%	4.5%	4.5%	4.5%	4.5%	4.7%	4.8%
Bank Prime	5.4%	5.9%	6.4%	6.5%	6.9%	7.4%	7.5%	7.5%	7.5%	7.5%	7.7%	7.8%
Existing Home Mortgage	5.8%	5.8%	5.8%	5.9%	6.0%	6.3%	6.5%	6.6%	6.6%	6.7%	6.8%	6.8%
INFLATION												
GDP Price Deflator	3.1%	2.4%	2.8%	2.7%	2.4%	1.4%	1.9%	2.1%	2.4%	1.9%	1.9%	2.0%
Personal Cons Deflator	2.3%	3.2%	4.1%	3.2%	1.8%	0.8%	1.7%	1.8%	1.8%	1.8%	1.8%	1.9%
Consumer Price Index	2.4%	4.2%	5.7%	3.8%	1.6%	0.1%	1.4%	1.5%	1.6%	1.6%	1.6%	1.7%

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